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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

NOTICE OF MARKET-DOMINANT PRICE ADJUSTMENT	Docket No. R2013-1

RESPONSE OF UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1
(October 26, 2012)

The Postal Service hereby files its responses to questions 1-4 and 6-20 of Chairman's Information Request No. 1, issued on October 23, 2012. A response to question 5 will be filed next week. Each question is stated verbatim, and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Pricing & Product Support

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John F. Rosato
David H. Rubin

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1135
(202) 268-2986, FAX: -6187

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First-Class

1. For the discount between Nonautomation Presort Cards and Automation Mixed AADC Presort Cards and the discount for ADC Presort Flats, the Postal Service identifies the exception claimed under 39 U.S.C. 3622(e)(2)(B) as justification for the passthroughs exceeding 100 percent.

    a. Please explain how this exception applies to these discounts. Provide qualitative description and/or quantitative analysis (*e.g.*, economic damage or disruption to business plans) to support use of this exception.

    b. For each of these discounts, please provide a schedule for phasing out the amount of the discount above costs avoided.

RESPONSE:

a. Mixed AADC Automation Cards

The passthrough for Mixed AADC Automation Cards compared to its benchmark of Nonautomation Presort Cards is 121.1 percent. This passthrough was below 100 percent when cost avoidance ranged between 2.4 and 2.7 cents. The discount was increased from 1.5 cents to 2.5 cents to bring this passthrough closer to 100 percent, as shown in Table 1 below. As stated on page 39 of the October 11 Notice of Rate Adjustment, in Docket No. R2012-3 the Postal Service increased the prices for Presort Cards by 9.63 percent. Some customers told the Postal Service that this was too large an increase, in light of the high cost coverage (271.2 percent) for this price category. In this docket, the Postal Service reduced the discount from 2.5 to 2.3 cents, but also kept the increase for Presort Cards below CPI.

ADC Presort Flats

Since FY2008 the passthrough for ADC Presort Flats has been above 100 percent due to the costing methodology change filed in Docket No. RM2008-2. As shown in Table 2 below, the passthrough has gradually declined toward 100 percent. If this discount was brought closer to the cost avoidance (5.6 cents) the price increase for Automation Flats would be above the already high price increase of 7.5 percent.

Table 1

	History of Passthroughs - Mixed AADC Automation Cards			
		Year-End Discount (cents)	Unit Cost Avoidance (cents)	Passthrough
ACD2009	Mixed AADC Automation Cards (Nonautomation Presort Cards)	1.5	2.4	62.5%
ACD 2010	Mixed AADC Automation Cards (Nonautomation Presort Cards)	1.5	2.7	55.6%
R2011-2	Mixed AADC Automation Cards (Nonautomation Presort Cards)	2.5	2.5	100.0%
R2012-3	Mixed AADC Automation Cards (Nonautomation Presort Cards)	2.5	2.7	92.6%
ACD 2011	Mixed AADC Automation Cards (Nonautomation Presort Cards)	2.5	1.9	131.6%

R2013-1	Mixed AADC Automation Cards (Nonautomation Presort Cards)	2.3	1.9	121.1%

	TABLE 2 History of Passthroughs - ADC Automation Flats			
		Year-End Discount (cents)	Unit Cost Avoidance (cents)	Passthrough
ACD2009	Automation ADC Flats (Automation Mixed ADC Flats	12.2	4.5	271.1%
ACD 2010	Automation ADC Flats (Automation Mixed ADC Flats	12.2	4.4	277.3%
R2011-2	Automation ADC Flats (Automation Mixed ADC Flats	12	4.4	272.7%
R2012-3	Automation ADC Flats (Automation Mixed ADC Flats	10	4.4	227.3%
ACD 2011	Automation ADC Flats (Automation Mixed ADC Flats	12	5.6	214.3%
R2013-1	Automation ADC Flats (Automation Mixed ADC Flats	10	5.6	178.6%

b. It is unrealistic to specify a schedule for phasing out the above 100-percent passthroughs, because of the number of unknowns. Inflation (CPI), the value of cost avoidances, and volume changes for these products may require the Postal Service to either accelerate or delay the phasing out process. But, as can be seen in recent history, the Postal Service has been mindful of the changes in cost avoidances and has moved the discount to bring the passthrough closer to 100 percent.

In the Annual Compliance Determination for FY2011 (Page 101), the Commission stated that in Docket No. R2012-3, it found that the discount for ADC Automation Flats was justified even though it resulted in an over 100 percent (227.3 percent) passthrough. The Commission stated that no further action was required. The justification and reasoning that the Postal Service provided in Docket No. R2012-3 remain the same. Also, in the current Docket, there is reasonable progress on that front, as the passthrough is lower than what it was in Docket No. R2012-3.

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Standard Mail

2. In USPS-LR-R2013-1/2, CAPCALC-STD-R2013.xls, tab: Description, the Postal Service explains that it adjusted its hybrid billing determinants for (i) the new Simple Samples price structure; and (ii) the introduction of High Density Plus price tier.

   a. Please explain the assumptions and methodology used to distribute the hybrid billing determinants to the new Simple Samples price structure. Specifically, please refer to tabs: Parcels-Regular Samples Wts., cells A20:E33 and Parcels-NP Samples Wts., cells A20:E33. Please provide all supporting workpapers used to develop these assumptions.

   b. Please explain the methodology used to arrive at the High Density Plus hybrid billing determinants included on tabs: HD-Sat-CR Com. Cap Wts. cells C9:Q9 and C15:Q15, and HD-Sat-CR NP Cap Wts. cells C9:Q9 and C15:Q15. Provide all supporting workpapers used to develop these assumptions.

RESPONSE:

a. The Postal Service assumed that for both Commercial and Nonprofit, 70 percent of the volume entered at the DNDC will be 3-Digit, while 30 percent will be 5-Digit. It was also assumed that 50 percent of the volume entered at the DSCF will be 3-Digit, while 50 percent will be 5-Digit. These assumptions were based on customer interviews.

b. The total High Density volume from the hybrid year was distributed between the High Density and High Density Plus tiers using the Q3 2012 distribution of High Density Standard (commercial and nonprofit) Letters and Flats pieces. Given that the High Density Plus tier requires at least 300 pieces per carrier route, the Postal Service divided the number of pieces from such mailings by the total number of High Density pieces at each point of entry. The distribution factor for Letters, NP Letters, Flats, and NP Flats was then applied to the total hybrid year (Q4 2011-Q3 2012) volume of Letters, NP Letters, Flats and NP Flats volume. See the attached file, *Question 2b.xls,* for supporting calculations.

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3. Please refer to USPS-LR-R2013-1/2, Mail to Mobile Promotions-STD-R2013.xls, tabs: Promotional Vol Comm LFP, Promotional Vol NP LFP, Promotional, Promotional Vol NP HD SAT CR, Vol Comm HD SAT CR and U. Please confirm that in each of these tabs, promotional pieces and pounds are calculated based on the ratio of promotional product pieces to total product pieces and pounds (i.e. promotional pieces/(total pieces + total pounds)).
   a. If confirmed, please provide the rationale for summing total pieces and pounds in the denominator, rather than total pieces only.
   b. If not confirmed, please explain.

RESPONSE:

Confirmed.

a. The total pounds were inadvertently included in the denominator. When the denominator is corrected, the resulting overall increase for Standard Mail is 2.562 percent. Errata to USPS-LR-R2013-1/2 will be filed. This error does not impact the proposed prices.

b. Not applicable.

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4. Please refer to USPS-LR-R2013-1/6.
   a. Please provide the 2011 Household Diary Study.
   b. Please provide the FY 2012 CONFIRM/IMb Tracing scan data.

RESPONSE:

a. The 2011 Household Diary Study is filed with this response. See *USPS_HDS_FY11_FULLREPORT.pdf*.

b. The FY 2012 Confirm/IMb Tracing scan data used in preparing USPS-LR-R2013-1/6 are filed with this response. Mailer names have been removed, and generic Mailer IDs have been included. See Question 4b*.xls*.

Standard Mail EDDM-R and Picture Permit

6. As the Postal Service describes on page 27 of its Notice, the Commission recently approved the addition of Every Door Direct Mail--Retail (EDDM—R) as a new product and Picture Permit Imprint as a new price category in Dockets No. MC2012-31 and R2012-7, respectively. The Postal Service includes prices for EDDM—R and Picture Permit Imprint in its Standard Mail price cap calculation workpapers, but does not include any volumes. Therefore these prices are not taken into account in the Standard Mail price cap calculations.

   a. Please provide a discussion of why the Postal Service chose to account for EDDM—R and Picture Permit in this manner. In that discussion, please explain whether volume data is available for EDDM—R and Picture Permit Imprint, and, if so, why the Postal Service chose not to include this data in the price cap calculation workpapers attached to the Notice.

   b. Please explain how the treatment of EDDM—R and Picture Permit Imprint for price cap calculation purposes is consistent with the treatment of Mobile Coupon and Click-to-Call, Earned Value Reply Mail, Emerging Technology, and Mobile Buy-it-Now in the current docket.

   c. Please explain how the Postal Service proposes to use experimental product data for price cap purposes if an experimental product transitions to a permanent product.

RESPONSE:

a. EDDM-R is a new product. Its initial price was established at 16 cents in Docket No. MC2012-31 (Addition of Every Door Direct Mail – Retail to the Product List). In its Order in that docket, the Commission concluded that "since the price previously charged for EDDM-R mail was collected as part of a market test, the increase proposed in connection with the addition of EDDM-R to the market dominant product list does not constitute a price increase otherwise subject to 39 U.S.C. § 3622(d)." Order No. 1460 at 11 (September 7, 2012). That initial price is being implemented on January 27, 2012, simultaneously with, but independent of, the price changes in this CPI price adjustment docket. 77 Fed. Reg. 62446-62449 (October 15, 2012). The market test statute specifically exempts market test products from the price cap requirements. 39 U.S.C. §3641(a)(2). Therefore, no volume data exist for the new EDDM-R MCS product, and it would be inappropriate to use the volume data from the market test product.

Picture Permit Imprint became effective June 24, 2012, for First-Class Mail and Standard Mail letters. 77 Fed. Reg. 25082-25083 (April 27, 2012). There was no volume data for the hybrid year used for the price cap calculation, since the hybrid year ended on June 30, 2012 (too soon after the June 24 implementation for customers to enter mail with picture permit imprints).

Picture Permit Imprint for First-Class Mail and Standard Mail flats is being added as a new option in this docket, effective January 27, 2013. Therefore, no price cap calculation is included for flats.

b. The lack of a price cap calculation for EDDM-R and Picture Permit Imprint does not result from the lack of volume data, but rather from the legal status of these two items – EDDM-R as a new MCS product, and

Picture Permit Imprint as a new price option. [1] This docket is not changing any existing prices for these items. The Mobile Coupon/Click-to-Call, Earned Value Reply Mail, Emerging Technology, and Mobile Buy-It-Now promotions, on the other hand, are planned to affect prices during portions of the year beginning January 27, 2013. When historical billing determinant data from the hybrid year used in this docket indicated the volumes that would receive promotional discounts, the Postal Service used those data to project the revenue loss from the promotions. Note that the Postal Service did not project any revenue loss from the Picture Permit promotion planned for August 1 through September 30, 2013[2] because, as explained in part (a), there was no Picture Permit volume during the hybrid year.

c. When a market test product transitions to a permanent MCS product, the change from the market test price to the initial price for the MCS product is not subject to the price cap, as explained above in part (a).

[1] Picture Permit Imprint for letters could be distinguished, because it is an existing option that could be included in the price cap calculation if it had been used during the hybrid year ending on June 30, 2012. But that price is not being changed in this docket.

[2] See Attachment D, pages 10-11.

Package Services

7. Please refer to Excel file "Attachment B Workshare_Final.xls," tab 'Media Mail & Library Mail,' which shows the discounts for Library Mail as the following: Basic, $0.47; and 5-Digit, $0.39. Please confirm that the discounts should be $0.44 ($2.40-$1.96) and $0.37 ($1.96-$1.59), respectively. If not confirmed, please explain.

RESPONSE:

Confirmed.

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8. Please refer to Excel file "CAPCALC-PSVC-R2013.xls," tab 'MM & LM Revs. @ Current Prices,' which shows, among other things, current presort Library Mail additional pound rates. The rates listed in cells E42 and E43 are different from the rates approved in Docket No. R2012-3. Please reconcile the 2012 rates listed in the table below:

Library Mail	**USPS-R2013-1/4 2012 Rate**	**USPS-R2012-3/4 2012 Rate**
Additional Pounds		
Second through Seventh Pounds	$0.39	$0.40
Eighth Pound and over	$0.37	$0.38

RESPONSE:

The prices of $0.39 and $0.37 were copied into the USPS-R2013-1/4 "CAPCALC-PSVC-R2013.xls" tab "MM & LM Revs. @ Current Prices" from an incorrect source. The correct rates for cells E42 and E43 should have been $0.40 and $0.38. This correction will be done in an errata filing that will correct the rates as well as the current revenues and price increase percentages for Library Mail and Package Services as a whole.

9. Please reconcile the following BPM Parcel workshare discount figures:

BPM Parcels	Attachment B Discount ($) [1]	Audited Discount ($) [2]	Calculation [3]
Presort Piece Rate			
Basic	0.67	0.64	= 2.13 – 1.49
Presort Pound Rates			
Zone 1&2	0.050	0.059	= 0.23 – 0.171
Zone 3	0.056	0.066	= 0.27 – 0.204
Zone 4	0.053	0.063	= 0.31 – 0.247
Zone 6	0.054	0.064	= 0.45 – 0.386
Zone 7	0.036	0.046	= 0.49 – 0.444
Zone 8	0.047	0.046	= 0.63 – 0.584
DDU Dropship	0.762	0.765	= 1.490 – 0.725

Notes:

[1] Attachment B Workshare_Final.xls, tab "Bound Printed Matter Parcels"

[2] Calculated using [3]

[3] Presort -- Compare CAPCALC-PSVC-R2013.xls, tab "New BPM SP Parcels Price," row 34 to Attachment A, Schedule 1420; Dropship -- Attachment A, Schedule 1420

RESPONSE:

The Audited Discounts are correct. Corrections will be filed in errata.

10. Please refer to the table below which displays quarterly billing determinant volumes for selected single-piece Media Mail and Library Mail rate categories.[3] The summation of the quarterly volumes differs from the hybrid-year volume provided in library reference USPS-R2013-1/4, Excel file "CAPCALC-PSVC-R2013.xls," worksheet 'FY2011Q4-FY2012Q3 MM & LM BDs.' Please reconcile the difference in volumes (column 5 versus column 6), and explain what caused this discrepancy.

	FY 2011 Q4 [1]	FY 2012 Q1 [2]	FY 2012 Q2 [3]	FY 2012 Q3 [4]	Total [5]	USPS-R2013-1/4 [6]
Media Mail						
First Pound						
Pieces	5,279,757	5,690,634	5,297,251	4,614,447	20,882,089	20,882,199
Library Mail						
First Pound						
Pieces	462,639	465,799	305,808	130	1,234,376	1,216,329
Non-Barcoded Pounds	1,522,934	1,591,314	1,534,342	1,532,726	6,181,316	6,089,826
Second through Seventh Pounds						
Pieces	1,050,205	1,083,786	1,209,496	1,545,287	4,888,774	4,817,396
Postage Pounds	2,026,661	2,469,522	2,469,341	2,582,437	9,547,961	9,398,693
Eight Pound and Over						
Pieces	32,017	75,372	34,991	2,025	144,405	142,341
Postage Pounds	183,505	517,910	546,156	58,003	1,305,573	1,273,343

RESPONSE:

The Media Mail First Pound Total of 20,882,089 is correct. This discrepancy was caused by an error when the FY2012 Q3 volume was entered

[3] *See* Market-Dominant Products Billing Determinants FY 2011 Quarter 4; March 14, 2012; Market-Dominant Products Billing Determinants FY 2012 Quarter 1, March 14, 2012; Billing Determinants for Quarter 2 of FY 2012 – Market-Dominant Products Billing Determinants and International Market-Dominant Billing Determinants May 31, 2012; Billing Determinants for Quarter 3, FY 2012 – Market-Dominant Products and International Market-Dominant Products Billing Determinants, October 1, 2012.

into the calculations. It was incorrectly entered as 4,614,**55**7. This correction will appear in errata for the Package Services "CAPCALC-PSVC-R2013.xls."

The discrepancy in all of the Library Mail Numbers occurred because the Commission was using the FY2012 Q2 Single Piece Library Mail Billing Determinants filed May 31, rather than revised FY2012 Q2 Single Piece Library Mail Billing Determinants that were filed October 1 (as part of the Quarter 3 Billing Determinants filing). The revised version appears on the Commission's Website with the May 31 filing. Substituting the revised volumes, weights, and revenues for the May 31 volumes, weights, and revenues will reconcile the data.

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Special Services

11. Please explain the discrepancy between the LacLink (Locatable Address Conversion System Product) quarterly billing determinants for the hybrid year and USPS-LR-2013-1/5, "CAPCALC-SpecServ -R2013-1.xls," worksheet -- "LacLink." Please identify where the volumes and revenues for Data Distributor and End User are included in the "Change Calc" worksheet.

	Hybrid Year Billing Determinants		USPS-LR-2013-1/5	
LacLink	Volume	Revenue	Volume	Revenue
Data Distributor / Year	32	$9,636	0	0
End User / Year	5	$1,550	0	0

RESPONSE:

The billing determinants are correct. The "LACSLink" worksheet has a formula error which affects the calculation of volumes and revenues. Errata will be filed.

12. The following refers to USPS-LR-R2013-1/5.xls, "CAPCALC-SpecServ-R2013-1.xls," worksheet -- "Merchandise Return." Please confirm that the total number of transactions, excluding accounting and permit fees should be 18,644,038 and not 16,703,844. If you are unable to confirm, please explain.

RESPONSE:

Confirmed. Errata will be filed.

13. For Bulk Insurance, please provide the number of transactions by bulk insurance value and include the current and proposed rates for each bulk insurance price range.

RESPONSE:

The available data do not provide that level of detail for bulk insurance. The only data available are a single volume and revenue value for bulk insurance. These are used to estimate the price cap impact of the bulk insurance price changes by increasing the average revenue per piece for bulk insurance by the same amount as the non-bulk insurance. The proposed rates for bulk insurance are shown in Attachment A of the Postal Service's Notice, page 90. The current rates are:

Bulk Insurance		
50	$	1.05
100	$	1.55
200	$	2.10
300	$	4.05
Per each additional $100	$	1.10

14. The following refers to USPS-LR-R2013-1/5.xls, "CAPCALC-SpecServ-R2013-1.xls," worksheet -- "Carrier Route." Please explain why the ACY Licensing Revenue is not included in the total revenues for "Carrier Route."

RESPONSE:

ACY Licensing was omitted because of a formula error. Errata will be filed.

15. The following refers to the proposed Mail Classification Changes. Please confirm that the Postal Service has discontinued and no longer offers the following product: 1515.20 – Barcode Certification. If you are unable to confirm, please explain and update USPS-LR-R2013-1/5 as appropriate.

RESPONSE:

Confirmed. Please see the Comments of the United States Postal Service in Docket No. RM2011-8, page 6 (March 24, 2011).

International

16. Please refer to the Notice at page 54, which proposes to add a handling charge for foreign-origin, inbound direct entry of First-Class Mail Single-Piece Machinable Letters, Postcards, Flats, and Parcels. Also, please refer to the Notice, Attachment A, at pages 4, 5, 13, and 15, under the heading Notes, which includes the following text:

"A handling charge of $0.001 per piece applies to foreign-origin, inbound direct entry mail tendered by foreign postal operators, subject to the terms of an authorization agreement."

a. Please explain why the text of the Note, above, is included under the domestic First-Class Mail product, rather than the First-Class Mail, Inbound Letter Post product.
b. Please explain why the text of the Note, above, is included under the First-Class Mail single-piece price schedules for machinable letters, postcards, flats and parcels given that foreign origin, inbound direct entry mail tendered by foreign postal operators is entered in commercial or bulk quantities.
c. Please explain the differences between a bilateral agreement (arrangement) with foreign postal operators for the inbound direct entry of First-Class Mail and an authorization agreement. In the response, please discuss the effect of implementing the handling charge on the eight foreign postal operators that currently have bilateral agreements (arrangements) featuring negotiated rates for direct entry of inbound letterpost bearing the indicia of the respective domestic mail classes. *See* Response of the United States Postal Service to Chairman's Information Request No. 5, Question 7, Docket No. ACR2010. Also, please explain whether foreign postal operators that have yet to conclude bilateral agreements (arrangements) governing the inbound direct entry of First-Class Mail will have to conclude bilateral agreements prior to, or concurrently with, an authorization agreement.

RESPONSE:

a. The text of the Note is included under the domestic First-Class Mail product, rather than the First-Class Mail, Inbound Letter Post product because, as the Note states, the "handling charge of $0.001 per piece applies to foreign-origin, inbound direct entry mail tendered by foreign postal operators, subject to the terms of an authorization arrangement." These items consist of items tendered by foreign postal operators and that bear the indicia of the respective domestic mail classes. After the implementation of the rates and classifications under consideration in this docket, foreign postal operators would pay the published First-Class Mail nonpresorted rates plus the additional charge described in the text of the Note. The small additional charge would be used to cover exceptional handling due to the fact that single-piece mail would enter the domestic network through International Service Centers (ISCs). Consequently, it is sensible to tie the published rates with the fee to be charged in the same schedule.

b. The text of the Note is included under the First-Class Mail single-piece price schedules for machinable letters, postcards, flats and parcels because the Postal Service's current plan is for the handling charge to apply only to First-Class Mail Machinable Letters, Single-Piece Postcards, Single-Piece Flats, and Parcels under an authorization arrangement between the Postal Service and a foreign postal operator. Bulk mail rates would not be offered due to the complexities associated with compliance with addressing, presortation, density, and other requirements. The Postal Service plans to include language in such authorization arrangements to the effect that each dispatch of foreign-origin, inbound direct entry mail tendered by a foreign postal operator must contain a minimum number of such items and that each item must bear a certain postage paid indicia of the Postal Service.

The Postal Service has determined that the simplest way to administer such authorized arrangements is to make them purely operational agreements and to point to the published rates and the per piece charge for purposes of determining remuneration.

c. Certain foreign postal operators currently have arrangements that include negotiated rates for direct entry of inbound items bearing the indicia of certain mail classes. Upon the successful conclusion of the review of the proposed handling charge at issue in this question, the Postal Service intends to migrate the existing contracts with foreign postal operators for inbound direct entry to new operational authorization instruments. Such instruments would not include negotiated rates, but rather would point to the published rates and the handling charge described above.

Foreign postal operators that do not currently have an arrangement with the Postal Service governing the inbound direct entry of First-Class Mail will not have to conclude a bilateral agreement as that term has been used to refer to instruments containing negotiated rates. Instead, as described above, foreign postal operators would simply execute authorization instruments so that procedures could be in place to account for and process incoming dispatches of direct entry mail.

In the *Annual Compliance Determination Report Fiscal Year 2011*, the Commission reviewed Global Direct Entry with Foreign Postal Administrations,[4] concluding with a recommendation "that the Postal Service act promptly to add these bilateral agreements to the market dominant product list as part of the Mail Classification Schedule."[5] The inclusion of the Note with the handling charge under the domestic First-Class Mail product in the proposed Mail Classification Changes for market-dominant products is intended to satisfy the concerns that the Commission raised about Global Direct Entry with Foreign Postal Administrations in the *Annual Compliance Determination Report Fiscal Year 2011*.

[4] U.S. Postal Regulatory Commission, *Annual Compliance Determination Report Fiscal Year 2011*, at 149-150.

[5] *Id.*, at 150.

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17. The following question pertains to the handling charge for foreign-origin, inbound direct entry of First-Class Mail Single-Piece Machinable Letters, Postcards, Flats, and Parcels, and the cap calculation for First-Class Mail. Please explain where the $0.001 handling charge and the volume of inbound direct entry First-Class Mail for the hybrid fiscal year are included in the cap calculations for First-Class Mail.

RESPONSE:

The $0.001 handling charge and the volume of inbound direct entry First-Class Mail were inadvertently omitted from the cap calculations for First-Class Mail. Although the inclusion of the charge has only a minimal impact, errata to USPS-LR-R2013-1/1 will be filed.

18. Please refer to Library Reference USPS-LR-R2012-1/NP1, Excel file Inbound CAPCALC-FCMI-R2013.xls, and worksheet tab Inbound FCMI Rates. Table 5 shows a decrease in the provisional terminal dues rates between CY 2012 and CY 2013. Please explain what caused the decrease in the provisional terminal dues rates between CY 2012 and CY 2013.

RESPONSE:

The reason for the decrease from 2012 to 2013 in provisional terminal dues rates is that the 2012 provisional rates are based on 2010 quality of service link results and the 2013 provisional rates are based on 2011 quality of service link results. In 2010 the Postal Service made its target, and in 2011 the Postal Service did not make its target. This resulted in a decrease in the provisional terminal dues rates.

19. Please refer to Library Reference USPS-LR-R2012-1/NP1, Excel file Inbound CAPCALC-FCMI-R2013.xls.

    a. For worksheet tab VOLUME & KG UPDATE, please provide the source of the volume and kilograms for inbound "S-LC/AO" and "A-LC/AO" by country code shown in the columns which appear under the heading Q1 FY11 and Q2-4 FY11.

    b. For worksheet tab VOLUME & KG UPDATE, please explain why the sum of the volume and kilograms columns for inbound "S-LC/AO" and "A-LC/AO" which appear under the heading FY 2011 are not the same as the sum of the foreign origin Pieces and Gross Kg in the "alc" and "sao" columns presented in Library Reference USPS-FY11-NP2, Docket No. ACR2011, in the Excel file Reports.xls, and the worksheet tab ICRA Database.

RESPONSE

a. The data source is the Excel file Inbound Calcs.xls from Library reference USPS-FY11-NP2, Docket No. ACR2011. The worksheet tabs Vol1 and Vol2 list the volume data for "S-LC/AO" in column D and the weight data for "A-LC/AO" in column I. The worksheet tabs Kg1 and Kg2 list the weight data for "S-LC/AO" in column D and the weight data for "A-LC/AO" in column I.

b. The kilogram and volume totals in ICRA Database tab are different than the Inbound Calcs.xls totals because the data for several countries under bilateral agreements are replaced with invoice-based data. The kilogram and volume totals in Inbound Calcs.xls are from IAB Letter Bill Reports and IPK calculations.

20. Please refer to Library Reference USPS-LR-R2012-1/NP1, Excel file Inbound CAPCALC-FCMI-R2013.xls.

a. Please refer to worksheet tab Inbound Revenue Calculation under CY 2012 and CY 2013 Terminal Dues Rates in the columns headed "Target Transition." For Country Codes 717, 721, 800, 810, 880, and 916, please provide a source(s) to a UPU document showing the referenced countries identified by a "1" are target system countries for the stated calendar years.

b. Please refer to worksheet tab Inbound Revenue Calculation under CY 2012 and CY 2013 in the columns headed "LC/AO sdr/kg" (Columns P and T, respectively). For Country Codes 800 and 916, please provide a source(s) to a UPU document showing the terminal dues rate for the stated calendar years.

c. Please refer to worksheet tab Inbound Revenue Calculation under CY 2012 and CY 2013 in the columns headed "LC/AO sdr/kg" (Columns P and T, respectively). Also, please refer to Library Reference USPS-FY11-NP2, Docket No. ACR2011, in the Excel file Inputs.xls, worksheet tab UPU Rates CY2, which identifies the following country codes as subject to the UPU revision mechanism: Country Codes 717, 859, and 971. Please explain why the terminal dues rates in the columns headed "LC/AO sdr/kg" for the referenced country codes do not reflect the terminal dues rates established by the revision mechanism.

d. Please refer to the worksheet tab Inbound FCMI Rates, Table 5, which shows the CY 2012 and CY 2013 per item and per kilogram Target System Provisional Terminal Dues Rates for Inbound First-Class Mail International. Also, please refer to worksheet tab Inbound Revenue Calculation and the CY 2012 and CY 2013 Terminal Dues Rates under the columns headed "LC/AO sdr/kg" and "LC/AO sdr/pce" (Columns P and Q, and T and U, respectively). Please explain why some countries identified as target system countries by a "1" in the columns headed "Target Transition" use per item and per kilogram terminal dues rates that differ from the CY 2012 and CY 2013 Target System Provisional Terminal Dues Rates shown in Table 5. *See* for example Country Code 706. Please provide a source for terminal dues rates that differ from Table 5.

RESPONSE

a. The source for all but Country Code 880 is the "Classification of countries and territories for terminal dues and Quality of Service Fund (QSF) purposes" listing published at http://www.upu.int/nc/en/activities/terminal-dues-and-transit-charges/countries-classification.html. Country Code 717 is a Group 3 country that is misidentified by a "1" in cell O22. Country Code 721 is a Group 4 country. It is misidentified by a "1" in cell S26, but since there is no FY 2011 data, there are no revenue calculations for this country in the CAP calculation. Country Code 800 is a Group 2 country that is not identified by a "1" in cells O100 and S100. Country Code 810 is a Group 2 country that is correctly identified in cells O110 and S110. Country Code 880 is not listed in the UPU classification, but is identified as an "IC" in cell L170 in USPS-FY11-NP2, Docket No. ACR2011, in the Excel file Inputs.xls, and the worksheet tab Country MasterList. Since there is no FY 2011 data, there are no revenue calculations for this country in the CAP calculation. Country Code 916 is a Group 3 country that is misidentified by a "1" in cell O200.

b. Since Country Code 800 is a Group 2 country, the worksheet incorrectly applies Transition System rates. Country Code 916 is a Group 3 country that uses the 2012 and 2013 bilateral rate.

c. Transition System rates were used for these countries because the 2013 revision system rates could not be confirmed.

d. These countries fall under the Group 2 classification that became Target System countries in 2012 and 2013. Table 2.2 of UPU IB Circular 124, June 27, 2011, lists the 2012 provisional terminal dues rates for target system countries participating in the QLMS. Table 2.2 of UPU IB Circular 102, July 2, 2012, lists the 2013 provisional terminal dues rates for new target system designated operators.